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DOCKET NO. W-01303A-05-0910

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TOWN OF

PARADISE VALLEY

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PHONE: (480) 948-7411

FAX: (480) 951-3715

TDD: (480) 483-1811

OFFICE OF: Town Manager

6401 EAST LINCOLN DRIVE
TOWN OF PARADISE VALLEY, ARIZONA 85253-4399Arizona Corporation Commission
DOCKETED

JAN 16 2008



January 15, 2008

Commissioner Mike Gleason, Chairman
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007-2927**Re: Request by Town of Paradise Valley to Reconsider Arizona Corporation Commission
Decision No. 68858; Consensus Plan for New Rate Design**

Dear Chairman Gleason:

On September 28, 2007, the Town of Paradise Valley ("Town") submitted to the Arizona Corporation Commission ("Commission") Town Resolution No. 1156 that requested the reconsideration of Commission Decision No. 68858 relating to a "High Block" and "Public Safety" surcharge for the Arizona-American Water Company ("Arizona-American"). Since that time, the Town has had numerous meetings with the representatives of groups of Town residents (including some of the larger homeowners' associations) and the resorts within the Town affected by the Decision to see if a consensus rate design could be negotiated among these groups.

The rate design discussions were aided by the work of John Thornton, who was retained by the resorts for the purpose of assisting in arriving at a consensus plan for rate design. After several of these meetings, Arizona-American representatives also joined the rate design discussions and suggested changes that would likely make the rate design more acceptable to the Commission and the Residential Utility Consumer Office ("RUCO"). These meetings were fruitful and resulted in all of these various groups agreeing to a rate design that all of the representatives would endorse. In fact, that rate design was made part of an agreement that almost all of the entities engaged in these discussions have now signed (see attached "Rate Design Agreement," including separate signature pages of various parties except for Arizona-American). It is believed that Arizona-American was also prepared to sign the Rate Design Agreement, but due to the possibility that RUCO would oppose the new rate design and request a full briefing schedule Arizona-American will not sign at this time.

Consistent with the request that was expressed in Town Resolution No. 1156, the Town would continue to encourage the Commission to utilize its powers under A.R.S. §40-252 to reopen the Decision and modify the rate design in such a way that the beneficial goals of providing needed fire flow improvements, encouraging water conservation, and fairly distributing the costs of such improvements among current and future customers of the Paradise Valley Water District of Arizona-American can be achieved. The method proposed in the attached Rate Design

Chairman Gleason

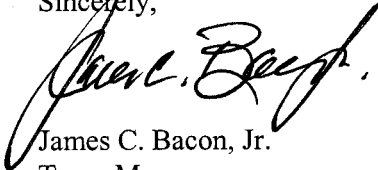
January 15, 2008

Page 2

Agreement is consistent with the Council's direction expressed in Resolution No. 1156, thus I would encourage the Commission to consider this proposed rate design if, and when, it reopens the Decision and to act expeditiously to implement the new rate design—as almost all of the affected parties have agreed and encouraged.

The Town also remains committed to working with Arizona-American to develop incentives for Town properties that become part of a water conservation landscape conversion program and to explore with Arizona-American how such a program can be implemented in future rate cases. Thank you in advance for your interest in the Town's input into the reconsideration of Decision No. 68858.

Sincerely,

A handwritten signature in black ink, appearing to read "James C. Bacon, Jr.", written over the printed name.

James C. Bacon, Jr.
Town Manager

AMM/dlw

cc:

Commissioner Gary Pierce
Commissioner William A. Mundell
Commissioner Hatch-Miller
Commissioner Kristin Mayes
Docket Control (13 copies of submittal to Chairman)
Dean Miller, Interim Executive Director
Andrew Miller, Town Attorney
Mayor and Council

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS PARADISE
VALLEY DISTRICT

DOCKET NO. W-01303A-05-0405

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
INC., AN ARIZONA CORPORATION, FOR
APPROVAL OF AN AGREEMENT WITH THE
PARADISE VALLEY COUNTRY CLUB

DOCKET NO. W-01303A-05-0910

RATE DESIGN AGREEMENT

I. INTRODUCTION

On July 28, 2006, the Arizona Corporation Commission ("Commission") issued Decision No. 68858 concerning the Paradise Valley Water District of Arizona-American Water Company ("Arizona-American"). Among other things, the Decision authorized Arizona-American to collect a "High Block" surcharge, as well as a "Public Safety" surcharge, to fund projects needed to satisfy fire-flow requirements sought by the Town of Paradise Valley, to encourage water conservation, to alleviate future rate increases for customers in the District and to slightly modify Decision No. 68303 which approved an accounting order applicable to the fire-flow project. On November 14, 2005, the Commission issued Decision No. 68303 which approved a deferral of associated depreciation expense and post-in-service AFUDC.

1 Since the issuance of Decision No. 68858, many customers have objected to the large
2 magnitude of the rate increase imposed on high-usage accounts and timely rate relief is sought.
3 Similarly, several resorts within the Paradise Valley Water District have stated that the
4 surcharges have increased water bills to levels significantly higher than bills for resorts receiving
5 municipal water from the Cities of Phoenix and Scottsdale, thereby putting the Paradise Valley
6 resorts at a competitive disadvantage.

7 Over the last several months, representatives from Paradise Valley Homeowners'
8 Associations, the Town of Paradise Valley, Paradise Valley resorts, and Arizona-American have
9 been discussing the possible substance of an agreement that would address the various parties'
10 concerns, while preserving the Commission's three goals of funding fire-flow projects,
11 encouraging water conservation, and alleviating future rate increases. The Town of Paradise
12 Valley's preferences were expressed in its Resolution No. 1156 dated September 27, 2007.

13 This Rate Design Agreement has been reached as a result.

14 **II. PARTIES**

15 The parties to this Rate Design Agreement are described in the following table:

<u>Party</u>	<u>Description</u>	<u>Authorized Signer</u>
Town of Paradise Valley	Municipal Corporation	James C. Bacon, Jr., Town Manager
Arizona-American Water Company	Water Utility	Paul Townsley, President
Sanctuary on Camelback Mountain	Resort	Robert J. Metli, Attorney
Camelback Inn	Resort	Robert J. Metli, Attorney
Scottsdale Renaissance	Resort	Robert J. Metli, Attorney
Camelhead Estates II HOA	Homeowners' Association	Janice D. Stoney, Resident
Clearwater Hills Improvement Association	Homeowners' Association	Mary Lou Reid, Resident and Executive Director
Finisterre HOA	Homeowners' Association	David Pulatie, Resident

16 These parties may be referred to jointly as the "Parties" or individually as a "Party."

1 **III. AGREEMENT**

2 The Parties ask the Commission, pursuant to A.R.S. § 40-252, to amend Decision No.
3 68858 to implement the rate design and accounting changes described below on March 1, 2008,
4 as a transitional measure until a final order is effective in Arizona-American's next rate case for
5 the Paradise Valley Water District.¹

6 A. On March 1, 2008, reduce the High Block surcharge from \$2.15 to \$1.00
7 per 1000 gallons, but continue to account for the proceeds from this surcharge as
8 Contributions in Aid of Construction ("CIAC"). The High Block surcharge would
9 recover all un-recovered fire-flow costs incurred as of February 29, 2008, if any,
10 including the previous Commission authorized accounting cost deferrals.

11 B. On March 1, 2008, reset the existing \$1.00 per 1,000 gallons Public Safety
12 surcharge to \$0.00. The proposed Public Safety surcharge would subsequently be re-
13 established in "ACRM" like step increase filings based on actual investment costs which
14 would occur upon completion of each fire-flow construction phase, with step increases
15 subject to an earnings test of 10.4% return on equity. Therefore, the Commission can use
16 the finding of Fair Value in Decision No. 68858 to determine the Fair Value with a
17 subsequent Public Safety step increase – just as presently occurs with ACRM filings.

18 C. The Public Safety surcharge would continue to apply only to the
19 commodity portion of the rate and would very likely remain well below the existing
20 amount of \$1.00 per 1,000 gallons as a result of its conversion to a revenue requirement
21 surcharge. The first step increase filing is anticipated in late 2008 upon completion of
22 Phase 3 of Paradise Valley's fire flow project (already under construction). An
23 approximate estimate of the first step increase in the Public Safety surcharge is \$0.125
24 per 1,000 gallons. The proposed Public Safety surcharge would recover investments

¹ Arizona-American presently plans to file this rate case not later than May 2008.

1 made after March 1, 2008, under a cost recovery mechanism using a revenue
2 requirements formula instead of CIAC.²

3 D. For fire flow phases completed after March 1, 2008, the Public Safety
4 surcharge would be designed to recover 50% of the investment. The revised High Block
5 surcharge, therefore, would be allocated the remaining 50% to recover, at least until a
6 final order is effective in Arizona-American's next rate case for the Paradise Valley
7 Water District.

8 E. All other rate design features of these two surcharges and accounting
9 deferrals would remain as they presently exist until modified by a final order in Arizona-
10 American's next rate case for the Paradise Valley Water District.

11 F. The Parties will seek to complete the transition of the High Block
12 surcharge from a CIAC to a revenue-requirement formula in proposals to the
13 Commission in the next rate case. The parties will also provide the Commission with
14 proposed enhancements to the existing conservation-oriented rate design.

15 G. The current construction schedule for the fire-flow projects in the Paradise
16 Valley Water District is set forth in the following table:

<u>Phase</u>	<u>Start</u>	<u>Completion</u>	<u>Cost Estimate</u>
Phase 3	1/1/08	12/31/08	\$3.626 M
Phase 4	1/1/09	12/31/09	\$4.346 M
Phase 5	1/1/10	12/31/10	TBD
Phase 6	1/1/11	12/31/11	TBD
Phase 7	1/1/12	12/31/12	TBD

² As of November 30, 2007, the total un-recovered fire-flow costs remaining (including deferrals) were \$795,622. Presently, \$3,018,867 of the fire-flow costs are also in rate base and are considered recovered for purposes of determining costs to be recovered in a re-designed High Block surcharge.

1 **IV. GENERAL PROVISIONS**

2 **A.** The Parties have entered into this Rate Design Agreement to resolve the
3 disputed matters between them and to avoid the time, expense, inconvenience, and
4 uncertainty attendant to litigation of these matters.

5 **B.** This Rate Design Agreement represents a compromise in the positions of
6 the parties hereto. By entering into this Rate Design Agreement, no Party acknowledges
7 the validity or invalidity of any particular method, theory or principle of regulation, or
8 agrees that any method, theory or principle of regulation employed in reaching a
9 settlement is appropriate for resolving any issue in any other proceeding, including
10 (without limitation) any issues that are deferred to a subsequent rate proceeding. Except
11 as specifically agreed upon in this Rate Design Agreement, nothing contained herein will
12 constitute a settled regulatory practice or other precedent.

13 **C.** All negotiations and other communications relating to this Rate Design
14 Agreement are privileged and confidential, and no party is bound by any position asserted
15 during the negotiations, except to the extent expressly stated in this Rate Design
16 Agreement.

17 **D.** The Parties authorize Arizona-American to file this Rate Design
18 Agreement in Docket No. W-01303A-05-0405, *et. al.*, together with a supporting motion
19 and explanatory schedules.

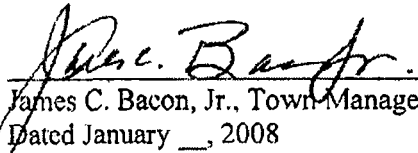
20 **E.** This Rate Design Agreement may be executed in counterparts.

21 **F.** This Rate Design Agreement is effective as of January 4, 2008.

22 **[Document continues on next page]**

V. SIGNATURES

Town of Paradise Valley


James C. Bacon, Jr., Town Manager
Dated January __, 2008

Arizona-American Water Company

Paul Townsley, President
Dated January __, 2008

Camelhead Estates II HOA

Janice D. Storey, Resident
Dated January __, 2008

Clearwater Hills Improvement Association

Mary Lou Reid, Executive Director & Resident
Dated January __, 2008

Finisterre HOA

David Pulatie, Resident
Dated January __, 2008

**Sanctuary on Camelback Mountain
Camelback Inn
Scottsdale Renaissance**

Robert J. Metli, Attorney in Fact
Dated January __, 2008

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Town of Paradise Valley

Arizona-American Water Company

James C. Bacon, Jr., Town Manager
Dated January __, 2008

Paul Townsley, President
Dated January __, 2008

Camelhead Estates II HOA

Clearwater Hills Improvement Association

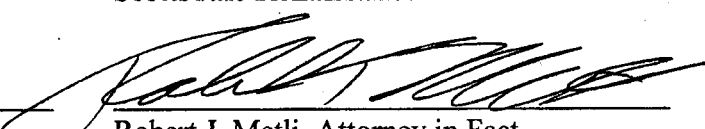
Janice D. Storey, Resident
Dated January __, 2008

Mary Lou Reid, Executive Director & Resident
Dated January __, 2008

Finisterre HOA

**Sanctuary on Camelback Mountain
Camelback Inn
Scottsdale Renaissance**

David Pulatie, Resident
Dated January __, 2008



Robert J. Metli, Attorney in Fact
Dated January 4, 2008

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James C. Bacon, Jr., Town Manager
Dated January __, 2008

Camelhead Estates II HOA

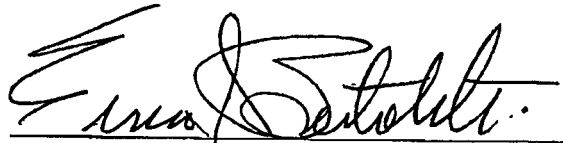
Janice D. Storey, Resident
Dated January __, 2008

Finisterre HOA

David Pulatie, Resident
Dated January __, 2008

Arizona-American Water Company

Paul Townsley, President
Dated January __, 2008

Clearwater Hills Improvement Association

Ermo S. Bartoletti, Resident and President
Dated January 3, 2008

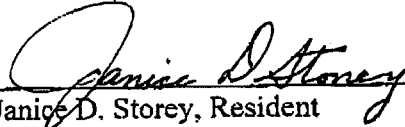
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Scottsdale Renaissance**

Robert J. Metli, Attorney in Fact
Dated January __, 2008

V. SIGNATURES**Town of Paradise Valley**

James C. Bacon, Jr., Town Manager
Dated January __, 2008

Camelhead Estates II HOA



Janice D. Storey, Resident
Dated January 3, 2008

Finisterre HOA

David Pulatie, Resident
Dated January __, 2008

Arizona-American Water Company

Paul Townsley, President
Dated January __, 2008

Clearwater Hills Improvement Association

Mary Lou Reid, Executive Director & Resident
Dated January __, 2008

**Sanctuary on Camelback Mountain
Camelback Inn
Scottsdale Renaissance**

Robert J. Metli, Attorney in Fact
Dated January __, 2008

V. SIGNATURES


Town of Paradise Valley

James C. Bacon, Jr., Town Manager
Dated January __, 2008

Camelhead Estates II HOA

Janice D. Storey, Resident
Dated January __, 2008

Finisterre HOA



David Pulatie, Resident
Dated January 3, 2008

Arizona-American Water Company

Paul Townsley, President
Dated January __, 2008

Clearwater Hills Improvement Association

Mary Lou Reid, Executive Director & Resident
Dated January __, 2008

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Scottsdale Renaissance**

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Dated January __, 2008